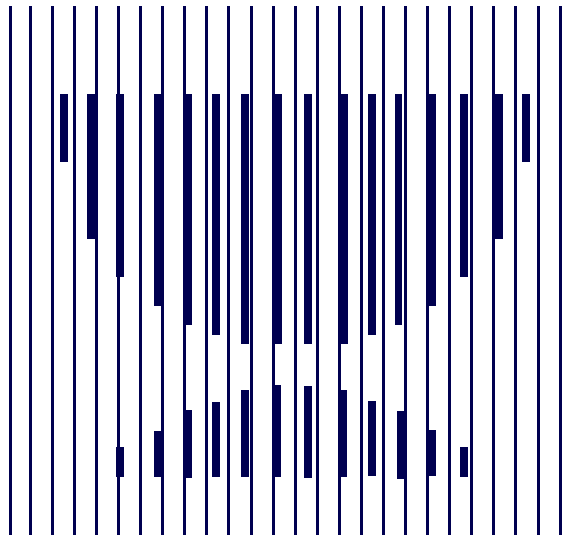


CBO MEMORANDUM

**PLANNING FOR DEFENSE:
AFFORDABILITY AND CAPABILITY
OF THE ADMINISTRATION'S PROGRAM**

March 1994



CONGRESSIONAL BUDGET OFFICE

CBO

MEMORANDUM

PLANNING FOR DEFENSE: AFFORDABILITY AND CAPABILITY OF THE ADMINISTRATION'S PROGRAM

March 1994

NOTICE

This memorandum is not available for public release until 10:00 a.m. (EST), Wednesday, March 16, 1994.



**CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515**

The first detailed Clinton defense plan was presented to the Congress in the fiscal year 1995 budget submission. Congressional debate this year revolves around the issues of whether the forces in the plan will be sufficient to fight potential threats and whether they are fully funded in the plan.

This memorandum addresses these issues. It analyzes the capability of the forces the Clinton Administration expects to have by the late 1990s and their affordability in both the near and longer term. The memorandum also evaluates alternatives, but in keeping with the Congressional Budget Office's (CBO's) mandate to provide objective analysis, it makes no recommendations. It is provided as background for testimony by Robert D. Reischauer, Director of CBO, before the House Committee on Armed Services.

Lane Pierrot of CBO's National Security Division prepared the analysis, drawing on the work of a number of other CBO analysts. Neil M. Singer, R. William Thomas, and Michael A. Miller provided direction during the analysis. Geoff Cohen developed the analysis of capability for two regional wars and assisted with the overall project. Karen Ann Watkins also provided extensive assistance during the analysis. The discussion of the costs of operating weapons builds on analysis done by William P. Myers and Lisa Siegel. William P. Myers also estimated detailed weapons costs. Frances Lussier, Ivan Eland, and Lane Pierrot provided analysis of long-term funding for the services, while David Mosher and Raymond J. Hall, Wayne Glass, Rachel Schmidt, and Ellen Breslin Davidson and Amy Plapp did the same for ballistic missile defense, environmental cleanup, defense conversion, and DoD health costs, respectively. Rachel Schmidt compiled that analysis. Debbie Clay-Mendez and Amy Belasco contributed freely from their analysis on issues relating to operations and maintenance, military personnel, and readiness. David Mosher, Michael O'Hanlon, and James Horney made useful suggestions during review. Ellen Breslin Davidson reviewed the memorandum for accuracy. Paul L. Houts edited it, with assistance from Christian Spoor, and Cynthia Cleveland prepared it for publication.

Questions about the analysis may be addressed to Lane Pierrot at (202) 226-2900.

CONTENTS

SUMMARY AND INTRODUCTION	1
DEFENSE IN CONTEXT	3
The Deficit	3
Discretionary Caps	3
Defense's Share of Gross Domestic Product	4
DOES THE BUDGET PROVIDE ENOUGH FUNDING FOR THE ADMINISTRATION'S PLAN FOR DEFENSE DURING THE 1995-1999 PERIOD?	6
Force Reductions and the Operating Accounts	8
Readiness Indicators	9
Cuts to Procurement	10
FACTORS THAT COULD ALTER THE ADMINISTRATION'S PLANS FOR DEFENSE SPENDING	13
Added Costs in the Administration's Plan	13
Cuts to Infrastructure	15
Added Costs for Environmental Cleanup	16
Growth in Weapons Costs	16
PROSPECTS FOR DECREASES IN DEFENSE SPENDING	16
LONG-TERM PROSPECTS FOR DEFENSE AFFORDABILITY	17
Long-Term Trends Assuming No Cost Growth	18
Long-Term Trends Assuming Costs Grow	19
DoD's Budget Could Receive Real Increases Beyond 1999	20
THREATS TO U.S. INTERESTS: REQUIREMENTS FOR TWO REGIONAL CONTINGENCIES	20
Smaller Threats	20
The Administration's Planned Forces and Two Regional Conflicts	23
The Adequacy of Airlift and Sealift	24
Results	25

ILLUSTRATIVE ALTERNATIVES	28
Increased Forces	28
Alternatives That Save Money	31
Reduce Acquisition Programs	33
APPENDIXES	
A Tables Presenting Analytic Assumptions for CBO's Long-Term Funding Analyses	35
B MIRKWOOD Assumptions and Methodology	39

TABLES

1.	Discretionary Caps and the Administration's Plans	5
2.	Trends in National Defense Budget by Title	7
3.	Forces in the Administration's Plan Compared with 1990 and 1995 Levels	8
4.	Department of Defense Personnel	10
5.	Examples of Possible Increases and Decreases in Department of Defense Budgets	14
6.	Alternatives to the Administration's Plan: Effects on Cost and Capability	30
A-1.	CBO Assumptions Behind Projections of Long-Term Costs, 2000 to 2010	36
A-2.	Procurement of Selected Major Weapons Under the Administration's Plan, as Estimated by CBO	37
A-3.	Average Unit Procurement Costs Assumed by CBO	38

FIGURES

1.	National Defense Outlays as a Share of Gross Domestic Product	6
2.	Historical Procurement Data, Numbers of Weapon Systems	11
3.	Budget Implications of the Administration's Plan	19
4.	Comparative Scores of Selected Regional Powers, 1995	22
5.	Comparison of Scores for United States and Indigenous Forces in Theater	26

SUMMARY AND INTRODUCTION

The fiscal year 1995 budget request is the first budget to contain the Clinton Administration's detailed plans for defense. The plans are based on analysis done over the past year as part of the Administration's bottom-up review (BUR). The review proposes cuts in conventional forces in all services to meet the Administration's targets for defense spending. As a result of the planned cuts in dollars and force structure, two major questions have surfaced that lie at the heart of this year's defense debate:

- o Are the dollars the Administration plans to devote to defense spending sufficient to support the forces that it expects to have?
- o Are the forces in the Administration's plans sufficient for its defense strategy, defined by this Administration as well as its predecessor as the ability to engage in two nearly simultaneous regional conflicts?

Clinton defense targets provide about \$104 billion less funding for defense during the 1995-1999 period than the Bush Administration would have provided.¹ But the BUR analysis suggests a number of forces could be cut while still maintaining the capability to fight two regional wars. The analysis also recommended canceling or scaling back a number of programs. As a result of these reductions, the \$1.2 trillion the Administration expects to spend on defense during the 1995-1999 period should be roughly sufficient to meet requirements.

The Clinton plan cuts operating funding less than it cuts forces. Operating funding would decline by 27 percent from 1990 levels, while major types of forces would be cut from about one-third (Army divisions and Navy ships) to almost one-half (Air Force wings). Thus, the planned operating funding should be sufficient to support the programmed forces. Procurement should also be roughly sufficient, although the Administration expects to buy considerably fewer ships, planes, and tanks than were bought in 1990. CBO's estimates suggest that Department of Defense (DoD) stocks of most major weapons should suffice at least through the 1990s.

The Administration's plan is subject to several risks, though they are small as a percentage of the plan's total funding. They raise concerns nonetheless because the budget fits snugly under the discretionary caps set out in the Omnibus Budget Reconciliation Act of 1993 (OBRA-93), and because the risks could arise after defense has experienced a number of years of declining budgets and thus the flexibility to address them might be lessened.

1. Department of Defense, *Report on the Bottom Up Review* (October 1993), p. 107. The difference reflects a Clinton Administration estimate of the Bush Administration baseline.

The risks include the shortages the Administration has identified in its plan; additional costs if savings from infrastructure reductions are delayed; and the possibility that costs will increase because of factors such as growth in weapons costs or requirements for environmental cleanup. Conversely, the Clinton Administration might make several further spending reductions if funding shortages arise.

The question of the affordability of the Administration's forces is more problematic in the long term. Over the 2000-2010 period, DoD would need an average of \$12 billion to \$25 billion more per year than the funding it would have if its budget only grew enough to offset inflation beyond 1999. (The range in these estimates relates to whether the Congressional Budget Office (CBO) assumes that the costs of future weapons grow.) The necessity for additional funding arises because future administrations would have to buy more major weapons on average during this period than are needed in the near term. Modest annual real growth in defense spending--about 1.5 percent annually from 2000 to 2010--would provide enough money even for the higher of these two budget paths. Should additional funding for defense not be forthcoming, further force cuts could be necessary to balance operations and acquisition funding.

However, further cuts to forces might be acceptable. The threats facing the United States are lower than they were during the Cold War. Instead of planning to fight a major conventional power such as the former Soviet Union, defense guidance calls for the capability to fight two smaller regional powers, though at the same time. CBO's analysis suggests that the forces the BUR provides would bring substantial capability to bear in two regional wars. (For purposes of analysis, CBO assumed one war in Southwest Asia against Iraq and one on the Korean peninsula.) Ratios of the capability of friendly to hostile forces in Southwest Asia would grow from about 0.6:1 at the beginning of conflict to about 2.8:1 after about three months of deliveries of U.S. troops and equipment. A nearly simultaneous conflict in Korea would start out with a ratio of about 1:1 and grow to about 2.6:1 after about two months of deliveries. These force ratios would provide sufficient capability to mount offensive operations in part of each theater while retaining enough forces to prevent further gains by the opposition.

These results suggest that DoD may be able to withstand further force reductions and still be able to bring significant forces to bear in two regional wars. CBO's analysis considers an alternative that would operate fewer forces. The Congress might wish to consider such a step if DoD encounters funding problems in the future. Alternatively, the Congress may wish to consider cutting acquisition programs or making changes in the ways DoD operates its forces.

CBO's analysis also includes an alternative that keeps forces at 1994 levels, rather than cutting them to the levels in the BUR. According to CBO's analysis of the forces the United States might field in two regional wars, this alternative provides additional capability, but the increased capability would require about \$70 billion more for DoD than the Administration plans to provide during the 1995-1999 period. Although concerns about a more uncertain world might lead to desires for additional defense spending, this spending might not be readily available in the face of overall budget constraints.

DEFENSE IN CONTEXT

Budgetary decisions for defense are not made in a vacuum; the overall outlook for the federal budget and the deficit may dictate future defense budgets as much as requirements for defense spending derived from DoD planning scenarios. As long as the Administration and the Congress remain concerned about the impact of continuing deficits on the economy, prospects for the deficit will constrain future federal spending. In particular, the Omnibus Budget Reconciliation Act of 1993 extended caps through 1998 on total discretionary spending--the portion of the budget that includes the bulk of defense funding.

The Deficit

CBO's March 1994 projections for future deficits are lower this year than last. CBO projects that the deficit will decline from the 1993 level of \$255 billion to \$228 billion in 1994, then drop sharply to about \$180 billion in 1995 and 1996. After that, deficits will begin to rise again, and by 1999 they are projected to be at \$213 billion, or about 80 percent of the 1993 level. Expressed as a percentage of the gross domestic product (GDP), the deficit remains at about 2.5 percent of GDP over the 1995-1999 period after dropping sharply in 1994. The ambitious deficit reduction package contained in OBRA-93 contributes enormously to the cuts in deficit levels in 1994 and beyond.

Discretionary Caps

Caps on discretionary spending--established by the Budget Enforcement Act of 1990 and extended by OBRA-93--determine the amount of spending available to defense. Discretionary spending encompasses programs controlled by annual appropriation bills and is divided into three categories:

defense, international, and domestic. In 1991, 1992, and 1993, separate caps applied to the defense budget. From 1994 through 1998--the last year of the OBRA-93 caps--defense spending will be constrained by annual limits on total discretionary spending. OBRA-93 caps both the spending authority the Congress creates in these bills (budget authority) and the expenditures that result from that authority (outlays).

The caps for discretionary budget authority provide modest growth in nominal budget authority, rising from \$518 billion in 1995 to \$533 billion in 1998 (see Table 1). This increase, however, falls short of increases needed by component programs for projected inflation. Hence, the programs under the caps must make reductions in real--inflation-adjusted--terms. The caps on total outlays increase only slightly--from \$545 billion in 1995 to \$550 billion in 1998--and are even more restrictive than the budget authority caps given the current mix of spending.

How will these caps affect defense spending? Since defense must now compete with other discretionary programs for funds under the overall caps, this question is difficult to answer with certainty. The Administration's plan for discretionary spending represents one possible path. Under that plan, all elements of discretionary spending would experience real reductions over the 1995-1998 period. The Administration's plan falls short of the amount needed to keep pace with inflation by about \$120 billion. The Administration plans for defense to absorb the bulk of this difference--almost 80 percent.

Defense's Share of Gross Domestic Product

If the Administration's reductions in defense spending are realized, defense's share of GDP will decline from 4.2 percent in 1994 to 2.9 percent in 1999. (Figure 1 shows defense spending's share of GDP for the 1947-1999 period.) After the reductions are made, defense spending will reach its lowest share of GDP since World War II.

Some proponents of altering the priorities in the Administration's plan might argue that, based on this trend, defense should receive more funding. Others will feel that a better way to address this question is to look at the components of the Administration's defense program in comparison with the threats faced by the United States, which clearly are less severe than at any time during the Cold War, despite the uncertain progress toward democracy in some of the former Warsaw Pact nations and the outbreak of ethnic hostilities in many countries.

TABLE 1. DISCRETIONARY CAPS AND THE ADMINISTRATION'S PLANS
(In billions of dollars of budget authority)

	1995	1996	1997	1998	1995 to 1998	Shares of Reduction (percent)
Discretionary Caps^a	518	519	530	533	2,100	n.a.
Administration's Proposal^b						
Defense	264	256	253	259	1,032	n.a.
International	21	21	21	21	84	n.a.
Domestic	227	237	243	249	956	n.a.
Total	512	514	516	529	2,071	n.a.
Funding Needed to Preserve Real 1994 Spending Level^c						
Defense	269	278	287	295	1,129	n.a.
International	21	22	22	23	88	n.a.
Domestic	227	240	248	261	976	n.a.
Total	518	540	557	579	2,193	n.a.
Compared with Proposal						
Defense	-5	-22	-34	-36	-97	79
International	0	-1	-1	-2	-4	3
Domestic	0	-3	-5	-12	-20	16
Total	-6	-26	-41	-50	-123	100

SOURCE: Congressional Budget Office and Administration estimates.

NOTE: n.a. = not applicable.

a. CBO estimated end-of-session caps.

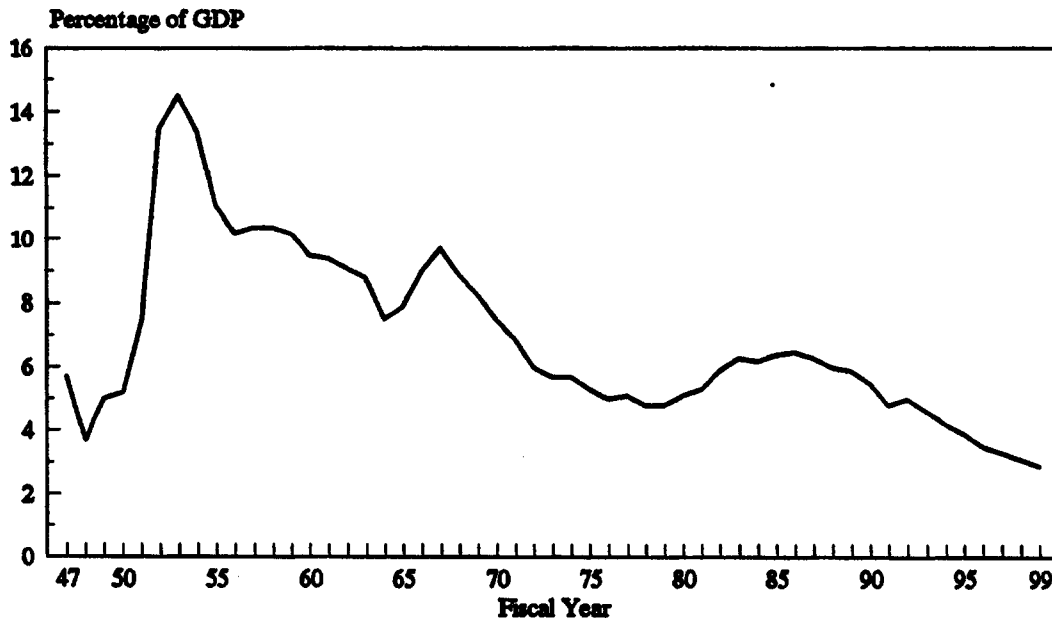
b. CBO's reestimate of the Administration's fiscal year 1995 budget request. The reestimate excludes the effects of the Health Security Act and the supplemental appropriations and rescissions enacted in P.L. 103-211.

c. CBO's estimate.

DOES THE BUDGET PROVIDE ENOUGH FUNDING FOR THE ADMINISTRATION'S PLAN FOR DEFENSE DURING THE 1995-1999 PERIOD?

Trends in the threat to the United States can and do affect the size of the defense establishment. The Department of Defense expects to spend \$1.2 trillion over the next five years to maintain forces, buy existing weapons, and develop new ones. (See Table 2 for the Administration's spending plans by title—roughly, the categories the Congress uses to authorize and appropriate funds.) Although the Clinton Administration's plan provides much less spending than previous administrations had planned, cuts in the numbers of forces and in weapons modernization programs suggest that the Clinton Administration's reduced program is broadly consistent with its funding plan.

**FIGURE 1. NATIONAL DEFENSE OUTLAYS AS A SHARE OF
GROSS DOMESTIC PRODUCT**



SOURCE: Congressional Budget Office based on fiscal year 1995 budget data.

TABLE 2. TRENDS IN NATIONAL DEFENSE BUDGET BY TITLE

Title	Budget Authority (In billions of 1995 dollars)						Change from 1990 Level (In percent)	
	1990	1995	1996	1997	1998	1999	1995	1999
Department of Defense								
Military personnel	91	70	65	63	62	61	-23	-33
Operation and maintenance	103	93	86	83	81	81	-10	-21
Procurement	94	43	47	47	52	53	-54	-43
Research, development, test, and evaluation	42	36	34	30	28	27	-14	-36
Military construction	6	5	8	5	4	4	-15	-38
Family housing	4	3	4	3	3	3	-9	-5
Other	-0	1	-5	-4	-4	-3	n.a.	n.a.
Subtotal	339	252	237	228	227	227	-26	-33
Other Agencies	12	12	12	11	11	11	-8	-8
Total	351	264	249	239	238	238	-25	-32

SOURCE: Congressional Budget Office based on Department of Defense data.

NOTES: Budget authority from the President's fiscal year 1995 budget. DoD price index used to express amounts in constant 1995 dollars.

n.a. = not available.

Force Reductions and the Operating Accounts

The United States will be able to field considerably fewer major forces than it could during the Cold War. Most of the cuts will have been made by 1995 (see Table 3). Active Army divisions and Navy ships will be cut by about a third from 1990 to 1995. The number of tactical fighter wings in the Air Force will fall by an even larger percentage, to only about half the 1990 level. The number of active Army divisions will shrink by about 17 percent beyond

**TABLE 3. FORCES IN THE ADMINISTRATION'S PLAN
COMPARED WITH 1990 AND 1995 LEVELS**

Service	Component	Forces			Percentage Change		
		1990	1995	1999	1990-1995	1990-1999	1995-1999
Land Forces (divisions)							
Army	Active	18	12	10	-33	-44	-17
	Reserve	10	8	8	-20	-20	0
Marine Corps	Active	3	3	3	0	0	0
	Reserve	1	1	1	0	0	0
Naval Forces							
Battle Force Ships		546	373	330	-32	-40	-12
Carriers		15	11	11	-27	-27	0
Wings	Active	13	10	10	-23	-23	0
	Reserve	2	1	1	-50	-50	0
Tactical Air Forces							
Wings	Active	24	13	13	-46	-46	0
	Reserve	12	7.5	7	-35	-42	-7

SOURCE: Congressional Budget Office based on Department of Defense data.

NOTE: The Navy has an additional carrier in reserve in each of these years.

1995, and the Navy will lose 12 percent more ships.² (The Army expects, however, to make most of the personnel cuts associated with these force reductions by 1995.) The Marine Corps will retain the same number of major units as in 1990, though Marine Corps personnel will decline by 12 percent over that period. Reserve forces generally will undergo smaller reductions than active forces--perhaps reflecting their lower operating costs--though tactical air reserves, protected in earlier budgets, are slated for cuts in this plan.

Funds to support these forces appear in the military personnel title, which provides pay and benefits for DoD's service members, and in the operation and maintenance title that pays for a number of different items, many of which relate to readiness. Both categories of funding will decline less than the forces they support. Compared with fiscal year 1990's funding level, military personnel funding will decline in real terms by about 23 percent by 1995, and by about 33 percent by 1999.

The number of active military personnel will decline from 1990 by about 26 percent by 1995 and about 30 percent by 1999. This decline suggests that the number of active personnel will also be cut less than the forces they operate (see Table 4).

Operation and maintenance (O&M) funding, too, declines by lower percentages than major forces. O&M spending will be down by only 10 percent in 1995 compared with 1990, and will decrease by only 21 percent by the end of the Future Years Defense Program in 1999. Funding in the accounts that make up this title is often perceived--along with military pay--to relate to what DoD terms "readiness"--that is, the ability of U.S. forces to go to war quickly and perform well. What determines readiness is not always well understood. But having well-trained, intelligent troops and functioning equipment--which are paid for largely out of O&M--are certainly important components of readiness. Thus, the smaller reduction in O&M spending, as compared with forces, may reflect the priority the Administration and the services place on maintaining readiness.

Readiness Indicators

These priorities are also reflected in indicators of current readiness, according to a CBO analysis conducted at the request of the House Budget Committee. DoD uses a number of indicators to measure readiness--most with limitations. But some of the more objective measures suggest that DoD has been able to

2. The Army plans to reduce the number of active maneuver brigades by a far smaller percentage.

preserve the readiness of its forces despite overall funding cuts. For example, the quality of recruits in 1993 remained at very high levels, and the percentage of DoD's stock of equipment that is ready to fight ("mission capable") has changed little, if at all, from levels in place since the mid-1980s. Even measures that appear to portend trouble--such as large backlogs in repair of equipment--may be misleading. The Army's maintenance backlog, for example, includes equipment made available from demobilized active units that has been sent to depots for reconditioning before being distributed to reserve units. The principal impact of that backlog will be to delay improvements in reserve readiness and capability rather than to lower the current readiness levels of active forces.

Cuts to Procurement

Procurement accounts have taken the brunt of DoD's budget cuts. Cuts to procurement accounts make up about 60 percent of the \$87 billion real reduction between 1990 and 1995 in the annual DoD budget. Procurement appropriations pay for the aircraft, ships, tanks, and missiles that DoD uses to equip its forces, as well as a number of other systems. Fewer new weapons need to be bought to support a smaller force size. But annual procurement

TABLE 4. DEPARTMENT OF DEFENSE PERSONNEL (In thousands)

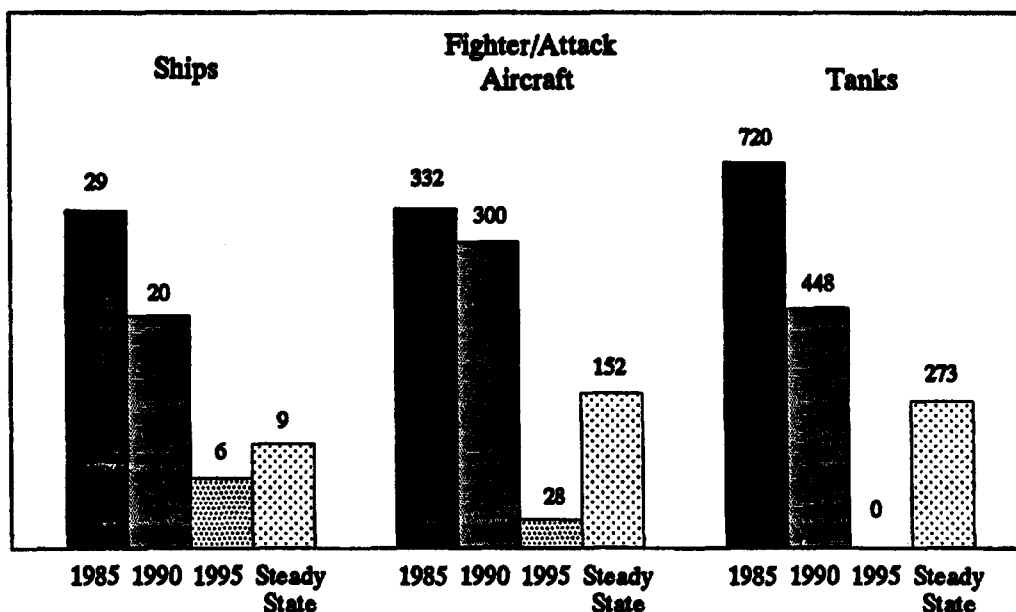
	1990	1994	Future Years Defense Program					Change from 1990 (In percent)	
			1995	1996	1997	1998	1999	1995	1999
Army	751	540	510	500	495	495	495	-32	-34
Navy	583	472	442	426	408	398	394	-24	-32
Marine Corps	197	174	174	174	174	174	174	-12	-12
Air Force	539	426	400	396	392	391	390	-26	-28
Total, Active	2,070	1,612	1,526	1,496	1,469	1,458	1,453	-26	-30
Selected Reservists	1,128	1,025	979	950	934	919	906	-13	-20
Civilians	1,073	923	873	846	822	809	794	-19	-26

SOURCE: Congressional Budget Office from Department of Defense data.

of major weapons has shrunk considerably more than forces (see Figure 2). For example, in 1995, the Administration requests funds for six new ships, about a third of the 1990 level of 20. Aircraft procurement drops to a tenth of its 1990 level. DoD plans to buy no new tanks for the Army in 1995, compared with 448 in 1990—though it requests funds for modernizing older M1 tanks.

This procurement "holiday" should be acceptable in the near term. According to CBO estimates, DoD will not run short of ships, fighter aircraft, or tanks through the planning period, despite the planned low levels of procurement. Indeed, the military services will have excess numbers of many types of equipment well into the first decade of the next century. DoD bought major weapons in large quantities during the 1980s, and the stock acquired then will suffice for a number of years. In addition, the cuts in forces will delay the need for replacing many types of weapons, since they permit DoD to equip the smaller number of units with the newest equipment.

FIGURE 2. HISTORICAL PROCUREMENT DATA, NUMBERS OF WEAPON SYSTEMS



SOURCE: Congressional Budget Office.

NOTE: The steady state estimate is the number of weapons DoD needs to buy each year, on average, to support planned 1999 forces.

The procurement holiday, however, cannot last indefinitely. Under the Administration's plans, the procurement accounts would grow modestly in real terms by 1999 to a level that is almost 60 percent of 1990 funding, compared with less than 50 percent in 1995. Funding for procurement will be almost \$10 billion higher in 1998 and 1999 than in 1995, as several new weapons enter production. But even with the increased funding, the number of weapons bought will be at low levels and eventually DoD will need to increase procurement quantities. More ships, planes, and tanks than are included in the Administration's procurement plan would be needed to sustain its forces in the steady state. (To calculate steady-state procurement, CBO simply divided the number of weapons DoD needs in its inventory by the length of service of each system. This yields a rough calculation of the number of weapons DoD would need to buy each year if past purchases had been made evenly. Eventually DoD may need to buy even more than steady-state quantities, since the majority of weapons bought in the 1980s would normally be retired toward the end of the next decade.)

Research, Development, Test, and Evaluation. RDT&E accounts will receive small reductions through 1995 relative to 1990 levels, being cut by 14 percent compared with a 54 percent reduction for procurement funding. This difference may reflect a deliberate policy of protecting funding for development. Developing weapons and getting them into the hands of service personnel takes longer than buying new equipment and fielding larger forces. This policy also reflects the premium the military services place on technological superiority. But RDT&E also reflect increases in some nontraditional costs. For example, most of the funds that the Administration expects to spend to help the defense industrial base convert to commercial activities are appropriated in the RDT&E accounts.

The Administration plans to cut RDT&E during the Future Years Defense Program period more than it has been cut recently. The Administration plans for RDT&E funding to fall to about 64 percent of its 1990 level during the period that funding for procurement is growing. Cutting funding for development may not be a problem for a number of years. The regional powers that the United States might face in conflict typically have much less sophisticated equipment than U.S. forces. Arms sales of top-of-the-line Russian equipment could somewhat improve the military capability of potential U.S. adversaries, but they may not be financially capable of large-scale arms purchases.³

3. For more discussion of this issue see Congressional Budget Office, *Limiting Conventional Arms Exports to the Middle East* (September 1992), pp. 81-85.

The United States may also have less to fear from technological breakthroughs by potentially hostile nations. For many years, the major innovator hostile to U.S. interests was the former Soviet Union. Russia may seek to continue some Soviet development programs, but cash shortages and changed priorities are likely to curtail many of the efforts.

FACTORS THAT COULD ALTER THE ADMINISTRATION'S PLANS FOR DEFENSE SPENDING

Several possible problem areas affect the affordability of the Administration's defense plan. Although each of these potential problems is important when budget resources are tightly capped, they do not amount to much as a percentage of funding included in DoD's plans. Perhaps the most reasonable concern about these issues is that they illustrate the size of the problems DoD might face, after several years of budget cuts that could limit the department's flexibility. (These examples, which are shown in Table 5, are neither additive nor exhaustive, but were chosen by CBO to illustrate possible sources of increases or decreases in funding without regard to overlap).

Added Costs in the Administration's Plan

According to Secretary of Defense William Perry, the Administration's defense plan is some \$20 billion short of funding the forces it calls for. That amount apparently is the result of three factors: underfunding of the forces the Clinton Administration found in place under the Bush Administration's plan; additional costs for military and civilian pay as the result of Congressional action; and assumptions about inflation that have changed since enactment of OBRA-93. Some of the costs were offset by additional funding added by the Administration to its original DoD spending plan.

The Bush Administration's plan for defense funding totaled \$1,325 billion over the 1995-1999 period (according to the Clinton Administration's reestimate). The Clinton Administration's 1994 budget for defense, however, provided only \$1,221 billion for that period, a difference of \$104 billion.

The bottom-up review, by cutting forces, canceling or deferring modernization programs, and achieving additional infrastructure savings, managed to reduce defense costs by \$91 billion, according to DoD estimates. The remaining \$13 billion was to be found in savings during the normal program and budget review that followed the completion of the BUR.

Meanwhile, the Congress included in the 1994 DoD appropriations bill a pay raise for military personnel and locality pay adjustments for civilian employees (the Administration's request provided for neither in 1994). The higher rates of pay added some \$11 billion to estimates of DoD costs for the 1995-1999 period. Pay was not the only higher price DoD faced: the Administration's estimates of purchase price inflation for 1995 and beyond also increased future defense costs. Together, these three factors--the BUR shortfall, higher pay rates, and purchase price inflation--created a budget shortfall that former Secretary of Defense Les Aspin estimated at \$47 billion.

Two events subsequently reduced the shortfall. First, DoD's program and budget review cut an additional \$16 billion from the 1995-1999 estimates. Second, the Clinton Administration agreed to adjust upward the fiscal year 1995 budget request and out-year budget projections to fund the higher rates of pay. Together these actions reduced the shortfall from \$47 billion to Secretary Perry's reported \$20 billion (see Table 5 for annual detail).

**TABLE 5. EXAMPLES OF POSSIBLE INCREASES AND DECREASES IN
DEPARTMENT OF DEFENSE BUDGETS (In billions of current dollars)**

	1995	1996	1997	1998	1999	Total	Percentage of Total Funding
Administration's Plan	252	243	240	247	253	1,236	100
Examples of Additional Funding							
DoD's Reported Underfunding	0	6	5	5	3	20	2
CBO's Estimate of Funding Needed if Infrastructure Reductions Are Not Realized	-4	2	3	5	5	10	1
Additional Funding for Environmental Restoration	4	4	4	4	4	20	2
An Example of Possible Reductions							
Possible Savings from Review of Strategic Programs	1	1	2	2	3	8	1

SOURCE: Congressional Budget Office.

The Administration, however, did not adjust its out-year defense top-line projections for the higher inflation rates in the 1995 economic outlook. Since the problem is in the out-years, not in fiscal year 1995, the decision taken was to defer acting on the \$20 billion shortfall until the 1996 budget request is prepared. At that point, several options may present themselves. If inflation projections are lowered next year, much of the problem might evaporate. If inflation is as projected (or higher still), the Administration could either agree to adjust the defense top line to reflect it, or, perhaps more likely, make additional reductions reflecting changes in programs or delays in execution to align DoD spending with the overall resource constraint. Another possibility is that DoD could identify savings from management efficiencies or acquisition reform that could offset the difference--certainly possible since \$20 billion is only about 2 percent of DoD's \$1.2 trillion plan.

Cuts to Infrastructure

The Administration plans to make aggressive efforts to reduce DoD's infrastructure. About 20 percent of the savings the Administration expects from the bottom-up review relate to cuts in infrastructure. The Administration may experience budget pressure if it is unable to alter the balance between major combat forces and the forces and infrastructure that support them (see that line of Table 5). These numbers illustrate the magnitude of the shortfall that could occur if the Administration found it difficult to cut operating spending as much as it plans during the five-year period. In the aggregate, however, the additional funding needed is quite small as a percentage of the Administration's request.

Historically, roughly half of DoD operating costs have varied with force levels, and the other half have been relatively fixed. Thus, a 10 percent reduction in forces could be expected to yield a 5 percent savings in support costs, defined here as training, logistics, medical costs, headquarters, and costs to operate bases. This formula suggests that it might be difficult to realize large savings on infrastructure. But the usefulness of historical data to project future infrastructure savings may be limited. The history reflects a period when DoD kept roughly the same number of facilities. As the base structure shrinks in parallel with declines in force levels, this fixed element of support costs will diminish.

If there is a problem, failure might cause a repetition of the Army's actions in 1993. At that time, the Army was forced to cut its operating tempo--summarized in the average number of miles Army personnel drive tanks per year--when assumptions about infrastructure savings proved optimistic. To save money, the Army dropped its actual tank miles to 600

from the budgeted level of 800. Since the number of miles driven is an indicator of training that directly relates to how well Army personnel can perform in battle, such a large cut in miles driven could affect readiness.

Added Costs for Environmental Cleanup

Increasing costs for environmental cleanup could also heighten the need for defense funds. These additional costs might total about \$20 billion, about \$4 billion on average for each of the next five years. The Administration plans to spend about \$12 billion on environmental restoration costs during the 1995-1999 period. But actual costs have been two to three times DoD's original estimates on cleanup projects DoD has undertaken. The potential growth in cost--shown in Table 5--assumes that DoD has underestimated its future costs as it has done in the past. This estimate may be overly pessimistic, though, since DoD may be better at making estimates of the costs of cleanup now that it has more historical experience on which to base them.

Growth in Weapons Costs

Finally, weapons costs could grow. For example, DoD will begin buying the F-22, a new fighter for the Air Force, during the next five years. The F-22's unit cost is likely to rise above current assumptions, since the Administration plans to cut the number of planes bought. Cost increases stemming from reductions in total quantities result from buying fewer weapons at the end of the program when producers are more experienced. Thus, they might not affect funding in the early years of the program, but the F-22 still could cost more in the near term if the transition from development to production turns up costly problems, as some press reports are suggesting. CBO has not done an exhaustive analysis of all of the programs in the 1995-1999 period because of a lack of detailed data, but the F-22 does not appear to be alone as a candidate for cost growth. Among the other programs that might increase in cost are the V-22, the C-17, a joint trainer for the Air Force and Navy, a number of tactical missile systems, and the Seawolf submarine.

PROSPECTS FOR DECREASES IN DEFENSE SPENDING

Several factors might counterbalance potential cost increases. One is the prospect that the Administration may further reduce strategic and ballistic missile defense programs. The Administration focused on conventional weapons in the bottom-up review, but it promised that a detailed study of strategic forces is under way. It is difficult, of course, to estimate how much

might be saved from alternatives that have not yet been specified. (Table 5 includes estimates of potential savings for these forces, based on options discussed in more detail in CBO's annual publication *Reducing the Deficit: Spending and Revenue Options* (March 1994). The options include reducing nuclear delivery systems and reducing the scope of the ballistic missile defense program.)⁴

Although costs for environmental cleanup may rise significantly during the next five years, the Congress and DoD could reduce spending for cleanup or at least moderate its growth. Savings could come from using more efficient methods of characterizing contaminated sites, applying less costly methods of cleanup, and negotiating less stringent cleanup standards for contaminated facilities. Alternatively, DoD could delay remediating costly contamination in cases where there is no immediate threat to public health and safety. The Army reduced the costs of cleaning Fort Meade by more than 60 percent by converting an artillery practice range into a game preserve with restrictions on public use.

In addition, according to Administration officials, DoD is planning a number of procurement reforms that could produce savings that have not been incorporated in the DoD budget. These reforms include making greater use of commercial products and exchanges of electronic data and reducing the overhead cost of government suppliers. Making more use of computer-aided design might also reduce costs.

Several analyses have tried to estimate savings associated with these types of reforms, though results range widely. CBO has no basis for estimating the portion of DoD's acquisition budget that would be affected, nor the magnitude of that effect. But it does seem clear that some savings can be achieved. If savings are realized--and history is replete with examples of overly optimistic assumptions about savings from reform--they probably would not be significant until after the year 2000. This timing could improve the long-run affordability of the Administration's plan.

LONG-TERM PROSPECTS FOR DEFENSE AFFORDABILITY

It is also useful to consider prospects for defense budgets over a longer period than just the next five years, to assess whether current policies might lead to future problems. The projection period of this portion of CBO's analysis is

4. Savings also include a reduction in Department of Energy funding for research and testing efforts for nuclear warheads, which is not a part of the DoD budget. Since it is a part of the overall defense budget, savings from this alternative might be applied to the DoD budget to remedy shortages if the Administration wished.

from the year 2000 to 2010. This extended a look is necessary since many weapons have long service lives and development efforts do not reach fruition for many years.

Future defense spending is heavily influenced by whether costs of weapons grow. CBO has made two estimates of long-term budgets. One estimate assumes that future administrations successfully constrain the growth of costs for future weapons. The other assumes that costs grow at rates that are consistent with historical experience. Both estimates assume that operating costs remain at 1999 levels, since DoD will have made its planned force cuts by then. The estimates also incorporate Administration or service plans for long-term procurement where they are available. In several cases where there is considerable uncertainty about what the Administration will do, CBO has made a best guess about what plans might materialize. (Tables A-1 through A-3 in Appendix A provide details about these assumptions.)

Long-Term Trends Assuming No Cost Growth

Even if the costs of weapons do not grow above current estimates, DoD's budgets will need to grow in real terms from the funding level the Administration expects in 1999, the last year of the current plan. Growth occurs largely because CBO assumes that future administrations will need to buy more weapons during this period than it plans to buy during 1995 through 1999. For example, CBO assumed that DoD would buy an average of 48 fighters for the Air Force in each year from 2000 through 2010 (see Table A-2). This estimate compares with about five fighters bought annually, on average, during the 1995-1999 period.

Even without additional increases in costs, projections of needed funding exceed the 1999 level from 2000 to 2010, though costs are lower than the funding requested in this year's budget (see Figure 3). On average, DoD would need to receive about \$12 billion annually above what the Administration plans for in 1999, or about 5 percent more.

Growth occurs fairly early in the extended projection period. From the Administration's planned 1999 budget of \$241 billion, funding climbs rapidly to a peak of \$262 billion in 2002, when CBO assumes that an aircraft carrier, F-22 fighters, and C-17 transports will be procured simultaneously. Projections move downward after the early 2000s as C-17 production is completed, but it edges up near 2010 when CBO assumes that the planes to be developed under the Administration's Joint Advanced Strike Technology (JAST) program will enter procurement.